



San Mateo County Legislative Proposal Analysis Form

Date Submitted: April 28, 2026
 Submitted Department: County Executive's Office
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Reviewed and Approved by County Attorney
 Yes No

Reviewed and Approved by County Executive
 Yes No N/A

Legislative Proposal: Increasing the County's Maximum Local Transactions and Use Tax Rate

Proposed Legislation:

- Citizen initiative state statute
- Legislatively referred constitutional amendment
- Bond issue

Recommended Position

- Support
- Oppose
- Neutral
- Other –Supervisors Jackie Speier and Lisa Gauthier are requesting the Board's support for this proposal.

Summary

Adopt a resolution authorizing the County Board of Supervisors to support legislation that would increase the current maximum local transactions and use tax rate by up to 0.5% to ensure adequate funding for critical local services and to meet essential community needs.

Background

Ahead of the February 20, 2026, bill introduction deadline, and at the request of Supervisor Jackie Speier, the Intergovernmental and Public Affairs (IGPA) Unit of the County Executive's Office has been working with Assemblymember Marc Berman to develop legislation that would allow the County to increase the current maximum local transactions and use (i.e., sales) tax rate by up to 0.5%.

Given the current climate of uncertainty—particularly the County's ongoing challenge to secure its full in-lieu Vehicle License Fee (VLF) revenue owed to the County and its 20 cities, as well as the anticipated operational and fiscal impacts resulting from the passage of House Resolution (H.R.) 1 and other federal actions—the County may wish to consider options to increase revenue to cover potential shortfalls in state and federal funding. If the Board of Supervisors chooses to pursue securing additional revenue, legislation would be needed to raise the current cap on the local transactions and use tax rate for these purposes.

In the past several years, various local governments in the Bay Area have either increased their maximum local transactions and use tax rate or are considering doing so in direct response to the anticipated fiscal challenges of implementing H.R. 1.

For example, during the 2023-24 California State Legislative

Session, Governor Newsom signed Senate Bill 335 (Chapter 391, Statutes of 2023), sponsored by Santa Clara County. This law granted the Santa Clara County Board of Supervisors temporary authority, through December 31, 2028, to place on the ballot an increase of Santa Clara County's transactions and use tax by up to 0.625%. In August 2025, pursuant to that authorization, the Santa Clara Board of Supervisors approved placing Measure A on the November ballot, which voters approved. According to county officials, revenues from this measure would fund healthcare services and support the county's public hospital system, partly to offset expected federal funding cuts under H.R.1.

Other counties, such as Contra Costa, are considering similar actions. Earlier this month, the Contra Costa Board of Supervisors enacted an ordinance to impose a 0.625% general transactions and use tax for five years. It also passed a resolution calling for an election to submit the tax to voters on the June 2, 2026, ballot. The funds would also be used for healthcare services.

Preliminary analyses by the County's Health System and Human Services Agency suggest that implementing H.R. 1, together with state budget measures for FY26-27, will create both immediate and long-term financial effects on its health and social services programs. This is especially true for the management of CalFresh (SNAP) services and new Medi-Cal administrative duties, which will significantly increase the County's workload without providing adequate federal funding.

The Human Services Agency anticipates an overspend of approximately \$2 million on overtime costs for eligibility-related workloads in FY25-26, with the overspend expected to continue into FY26-27, among other issues. Additionally,

assuming continued care for the existing patient population, San Mateo County Health could incur ongoing financial losses of \$24.9 million in FY26-27 and an additional \$19.7 million in FY27-28, for a total loss of \$44.6 million.

Looking ahead, departments anticipate that the County's structural General Fund exposure will intensify in FY26-27 as federal cost-sharing for CalFresh administration is reduced. This shift is expected to increase annual County costs by approximately \$2.6 million to \$8.8 million, depending on State pass-through decisions, representing significant and ongoing fiscal pressure.

Transactions & Use Taxes in California

In California, transactions and use taxes consist of a base state tax of 7.25%, plus an optional 2% cap for each county's transactions and use tax districts. Therefore, without further authorization, the transaction and use tax in a county cannot exceed 9.25%. Additional taxes beyond this limit must be authorized by special legislation.

The following table illustrates the breakdown of the basic state transactions and use tax rate along with the additional 2% cap for local transactions and use taxes:

Base Sales Tax Rate Breakdown

Jurisdiction	Purpose/Authority	Rate
State (General Fund)	State general purposes	3.9375%
City/County (General Fund - Bradley-Burns)	City and county general operations	1.0000%
State (Proposition 172 - 1993)	Local governments to fund public safety services	0.5000%
Local Revenue Fund (2011 Realignment)	Local governments to fund public safety services	1.0625%
State (1991 Realignment)	Local governments to fund health and welfare programs	0.5000%
County (Transportation Fund)	Dedicated to county transportation purposes	0.2500%
Total Statewide Rate		7.2500%
Transactions and Use Tax Districts (Maximum Rate Per County)		2.0000%
Total Rate		9.2500%

Cap = Total 2% above statewide base 7.25%

*NOTE: Multiple counties have reached the cap, including Alameda, Los Angeles, **San Mateo**, Santa Cruz, and Sonoma*

Although the 7.25% base state tax is remitted to the state, several of the categories listed in the above table are allocated to local governments, including counties. For example, Proposition 172 funds pass through the state to counties to enhance public safety services. The local transactions and use tax district increment of 2% is a maximum limit per county, but the local taxes levied within this increment need not be levied countywide. For instance, within a specific county, and subject to voter approval, the county may impose a tax across the entire county. Starting in 2003, a city may impose a tax within its city limits, or a regional authority, such as a transportation authority, may levy a tax within its boundaries.

To determine whether a county has reached its maximum capacity, all countywide taxes and the highest combined rate imposed by a city within the county are included in the county's rate limit. Therefore, if the combined rate equals 2%, neither the city nor the county could impose another transactions and use tax absent special authority to exceed the rate limitation.

Furthermore, the California Constitution states that taxes imposed by local governments are either general taxes, which require majority approval of voters, or special taxes, which require a 2/3 vote (Article XIII C). Proposition 13 (1978) mandates a 2/3 vote in both houses of the Legislature for state tax increases, and a 2/3 vote for local special taxes. Local agencies generally propose increasing taxes by adopting an ordinance or resolution at a public hearing. Because the County's proposal would seek to increase its current maximum sales tax rate for general purposes by up to 0.5%, the bill would require only a majority vote (50%) of the legislature.

Transactions & Use Taxes in San Mateo County

In San Mateo County, the total transactions and use tax rate is currently at 9.375%. This rate includes Measure K, a half-cent countywide sales tax extension approved by 70.37% of voters in 2016, which is scheduled to sunset in 2043. Measure K's half-cent sales tax adds 10 cents to a \$20 taxable purchase and 50 cents to a \$100 taxable purchase—prescription drugs and most groceries are exempt from the sales tax.

In FY24-25, Measure K generated nearly \$115 million. The Board of Supervisors generally allocates funds from Measure K to do the following:

- Maintain and upgrade the County’s parks;
- Enhance early learning opportunities to close the achievement gap;
- Expand access to quality health and mental health care;
- Build and protect affordable housing;
- Promote public safety;
- Support seniors, disabled individuals, and veterans; and
- Improve the quality of life for all.

Therefore, because San Mateo County has reached its current transactions and use tax cap, state legislation would be required to authorize any further increase in the local tax rate.

Policy Considerations

California’s transactions and use tax rate is among the highest in the nation, particularly when locally imposed transactions and use taxes are included. As a result, some stakeholders might raise concerns that transactions and use taxes can be regressive—meaning they may place a proportionally greater burden on lower-income residents, who typically spend a higher share of their income on taxable goods.

Under the proposed legislation, some areas of San Mateo County could see combined sales tax rates increase to as much as 10%, which may amplify affordability concerns. Voters may also raise concerns about the potential imposition of another sales tax increase, particularly since Measure K was extended in November 2016.

At the same time, expanding our local taxing authority could provide the County with a practical tool to address ongoing and expanding fiscal pressures and maintain essential services, in response to potential reductions or volatility in state and federal funding. If the Board were to sponsor legislation granting the County authority to increase its maximum transactions and use tax rate, the County would gain additional flexibility to stabilize essential services and direct revenues to qualified expenditures.

Notably, sponsoring the measure would not, by itself, increase taxes; rather, it would preserve a future option for the Board and community to consider as part of a broader fiscal strategy.

Proposed Legislation and Policy Vehicle

The proposed bill would permit the San Mateo County Board of Supervisors (or voters through a voter-initiated ballot measure) to propose a countywide transactions and use tax of up to 0.5%, exceeding the 2% statutory limit, which in

either case would be subject to countywide voter approval. If increased by 0.5%, the County’s new transactions and use tax rate would increase from 9.375% to 9.875%. Additionally, as in Santa Clara County, the legislation would be designed to allow a measure to be pursued for up to 5-years. This would provide flexibility to place a transaction and use tax increase measure on the ballot at any time within that 5-year period.

All proceeds generated from the potential tax increase would need to be used for purposes consistent with the qualifying expenditures set forth in the ballot measure. Estimates are that the proposed tax increase of 0.5% would generate approximately \$114M annually. If the tax is not pursued within the 5-year period, these authorizing provisions would expire at the end of the designated period.

As many California cities and counties will be seeking an increase of their transactions and use tax cap this session, legislative leaders have indicated their intent to advance two pieces of legislation that would group jurisdictions by when they are prepared to seek voter approval. Jurisdictions seeking to advance sooner would be included in the first bill, with the others included in a later second bill.

Assemblymember Marc Berman continues to support the County’s efforts and has indicated a willingness to work with legislative leadership to ensure the County is included in one of these measures this session, if the Board approves the proposal.

Finally, since some County cities have shown interest in gaining legislative authority to raise their local transactions and use tax limits (notably East Palo Alto), and are concerned that the County’s actions might affect their efforts, any County proposal to increase its sales tax cap would explicitly specify that such an increase would not be included in the combined rate of a city within the same county.